

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

☒ Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2003

☐ Transition report under Section 13 or 15(d) of the Exchange Act
For the transition period from _____ to _____

Commission file number 0-26003

ALASKA PACIFIC BANCSHARES, INC.
(Exact Name of Small Business Issuer as Specified in Its Charter)

Alaska 92-0167101
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

2094 Jordan Avenue, Juneau, Alaska 99801
(Address of Principal Executive Offices)

(907) 789-4844
(Issuer's Telephone Number, Including Area Code)

NA
(Former Name, Former Address and Former Fiscal Year,
If Changed Since Last Report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date:

626,132 shares outstanding on October 31, 2003

Transitional Small Business Disclosure Format (check one):

☐ Yes ☒ No

**Alaska Pacific Bancshares, Inc. and Subsidiary
Juneau, Alaska**

INDEX

<u>PART I. FINANCIAL INFORMATION</u>	Page
Item 1. Financial Statements	
Consolidated Balance Sheets as of September 30, 2003 and December 31, 2002	1
Consolidated Statements of Income for the three- and nine-month periods ended September 30, 2003 and 2002	2
Consolidated Statements of Cash Flows for the nine months ended September 30, 2003 and 2002	3
Notes to Condensed Consolidated Interim Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Item 3. Controls and Procedures	15
 <u>PART II. OTHER INFORMATION</u>	
Item 1. Legal Proceedings	15
Item 2. Changes in Securities and Use of Proceeds	15
Item 3. Defaults Upon Senior Securities	15
Item 4. Submission of Matters to a Vote of Security Holders	15
Item 5. Other Information	15
Item 6. Exhibits and Reports on Form 8-K	15
Signatures	17

Item 1. Financial Statements

Alaska Pacific Bancshares, Inc. and Subsidiary
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2003	December 31, 2002
Assets	(Unaudited)	
Cash and due from banks	\$ 7,345	\$ 6,758
Interest-earning deposits in banks	23,008	21,471
Total cash and cash equivalents	30,353	28,229
Investment securities available for sale, at fair value (amortized cost: September 30, 2003 - \$12,840; December 31, 2002 - \$7,865)	12,864	8,076
Federal Home Loan Bank stock	1,713	1,649
Loans held for sale	1,155	4,590
Loans	114,521	107,274
Less allowance for loan losses	1,101	1,152
Loans, net	113,420	106,122
Accrued interest receivable	526	579
Premises and equipment (including building held for sale - \$1,366 at December 31, 2002)	1,868	3,088
Reposessed assets	829	189
Other assets	1,747	1,817
Total Assets	\$164,475	\$154,339
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	\$ 23,844	\$ 18,094
Interest-bearing demand	30,846	31,044
Money market	23,205	21,999
Savings	23,133	22,790
Certificates of deposit	37,470	38,754
Total deposits	138,498	132,681
Federal Home Loan Bank advances	9,440	5,000
Advances from borrowers for taxes and insurance	205	754
Accounts payable and accrued expenses	391	425
Accrued interest payable	332	282
Other liabilities	508	230
Total liabilities	149,374	139,372
Shareholders' Equity:		
Common stock (\$0.01 par value; 20,000,000 shares authorized; 655,415 shares issued; 626,132 and 623,132 shares outstanding at September 30, 2003 and December 31, 2002, respectively)	7	7
Additional paid-in capital	5,806	5,814
Treasury stock	(363)	(400)
Unearned ESOP shares	(288)	(288)
Unvested shares in stock award plan	(93)	(131)
Retained earnings	10,018	9,754
Accumulated other comprehensive income	14	211
Total shareholders' equity	15,101	14,967
Total Liabilities and Shareholders' Equity	\$164,475	\$154,339

See notes to consolidated interim financial statements.

Alaska Pacific Bancshares, Inc. and Subsidiary
Consolidated Statements of Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
<i>(in thousands, except per share)</i>	2003	2002	2003	2002
Interest Income				
Loans	\$1,988	\$2,132	\$5,690	\$6,408
Investment securities	171	162	577	523
Interest-bearing deposits with banks	57	50	192	108
Total interest income	2,216	2,344	6,459	7,039
Interest Expense				
Deposits	332	520	1,162	1,632
Federal Home Loan Bank advances	115	78	342	259
Total interest expense	447	598	1,504	1,891
Net Interest Income	1,769	1,746	4,955	5,148
Provision for loan losses	30	75	135	295
Net interest income after provision for loan losses	1,739	1,671	4,820	4,853
Noninterest Income				
Mortgage servicing income	44	47	138	142
Service charges on deposit accounts	176	152	511	407
Other service charges and fees	64	61	157	144
Gain on sale of mortgage loans	26	81	321	132
Total noninterest income	310	341	1,127	825
Noninterest Expense				
Compensation and benefits	934	847	2,821	2,545
Occupancy and equipment	347	341	1,016	1,017
Data processing	89	82	262	261
Professional and consulting fees	41	79	181	198
Marketing and public relations	53	51	166	143
Reposessed property expense, net	(17)	48	50	73
Loss on sale of office building	-	-	85	-
Other	277	218	723	636
Total noninterest expense	1,724	1,666	5,304	4,873
Income before income tax	325	346	643	805
Income tax	130	-	257	-
Net Income	\$ 195	\$ 346	\$ 386	\$ 805
Earnings per share:				
Basic	\$0.33	\$0.60	\$0.66	\$1.41
Diluted	0.31	0.58	0.62	1.35
Cash dividends per share	0.07	0.06	0.20	0.17

See notes to consolidated interim financial statements.

Alaska Pacific Bancshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows
(Unaudited)

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2003	2002
Operating Activities		
Net income	\$ 386	\$ 805
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	135	295
Depreciation and amortization	275	318
Gain on sale of mortgage loans	(321)	(132)
Federal Home Loan Bank stock dividends	(64)	(71)
Amortization of fees, discounts, and premiums, net	(177)	(43)
Stock award plan expense	38	38
Loss on sale of repossessed assets	13	-
Loss on sale of building	85	-
Deferred income tax expense	127	-
Cash provided by (used in) changes in operating assets and liabilities:		
Accrued interest receivable	53	69
Other assets	(67)	(357)
Advances from borrowers for taxes and insurance	(549)	(595)
Accrued interest payable	50	(164)
Accounts payable and accrued expenses	(34)	(16)
Other liabilities	278	(233)
Net cash provided by (used in) operating activities	228	(86)
Investing Activities		
Purchase of investment securities available for sale	(10,316)	-
Maturities and principal repayments of investment securities available for sale	5,280	3,217
Loan originations, net of principal repayments	(17,100)	(8,989)
Sale of mortgage loans	12,832	5,784
Proceeds from sale of repossessed assets	176	87
Proceeds from sale of building	1,297	-
Purchase of premises and equipment	(437)	(221)
Net cash used in investing activities	(8,268)	(122)
Financing Activities		
Issuance of treasury stock	29	-
Net increase (decrease) in Federal Home Loan Bank advances	4,440	(8,000)
Net increase (decrease) in demand and savings deposits	7,101	6,066
Net decrease in certificates of deposit	(1,284)	(2,564)
Cash dividends paid	(122)	(103)
Net cash provided by (used in) financing activities	10,164	(4,601)
Increase (decrease) in cash and cash equivalents	2,124	(4,809)
Cash and cash equivalents at beginning of period	28,229	23,886
Cash and cash equivalents at end of period	\$30,353	\$19,077
Supplemental information:		
Cash paid for interest	\$1,454	\$2,055
Loan repossessions	829	17
Net change in unrealized gain on securities available for sale, net of tax	(197)	222

See notes to consolidated interim financial statements.

Alaska Pacific Bancshares, Inc.
Notes to Consolidated Interim Financial Statements
(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Alaska Pacific Bancshares, Inc. (the “Company”) and its wholly owned subsidiary, Alaska Pacific Bank (the “Bank”), and have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. They should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2002, filed as part of its annual report on Form 10-KSB. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. The results of operations for the interim periods ended September 30, 2003 and 2002, are not necessarily indicative of the results which may be expected for an entire year or any other period.

Note 2 - Capital Compliance

At September 30, 2003, the Bank exceeded each of the three current minimum regulatory capital requirements and was categorized as “well capitalized” under the “prompt corrective action” regulatory framework. The following table summarizes the Bank's regulatory capital position and minimum requirements at September 30, 2003:

<i>(dollars in thousands)</i>		
Tangible Capital:		
Actual	\$14,423	8.90%
Required	2,431	1.50
Excess	\$11,992	7.40%
Core Capital:		
Actual	\$14,423	8.90%
Required	4,863	3.00
Excess	\$ 9,560	5.90%
Total Risk-Based Capital:		
Actual	\$15,525	14.94%
Required	8,311	8.00
Excess	\$ 7,214	6.94%

Note 3 – Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing net income by the weighted-average number of common shares outstanding during the period less treasury stock, unvested stock awards under the Management Recognition Plan (“unvested stock awards”), and unallocated and not yet committed to be released Employee Stock Ownership Plan shares (“unearned ESOP shares”). Diluted EPS is calculated by dividing net income by the weighted-average number of common shares used to compute basic EPS plus the incremental amount of potential common stock from unvested stock awards and stock options, determined by the treasury stock method.

Three Months Ended September 30,		2003		2002		
	Net Income	Average Shares	Earnings Per Share	Net Income	Average Shares	Earnings Per Share
Net income/average shares issued	\$195,000	655,415		\$346,000	655,415	
Treasury stock		(29,983)			(32,283)	
Unvested stock awards		(10,267)			(15,511)	
Unearned ESOP shares		(28,789)			(34,621)	
Basic EPS	195,000	586,376	\$0.33	346,000	573,000	\$0.60
Incremental shares under stock plans:						
Stock awards		5,141			5,332	
Stock options		30,354			22,186	
Diluted EPS	\$195,000	621,871	\$0.31	\$346,000	600,518	\$0.58

Nine Months Ended September 30,		2003		2002		
	Net Income	Average Shares	Earnings Per Share	Net Income	Average Shares	Earnings Per Share
Net income/average shares issued	\$386,000	655,415		\$805,000	655,415	
Treasury stock		(31,133)			(32,283)	
Unvested stock awards		(11,578)			(16,822)	
Unearned ESOP shares		(28,789)			(34,621)	
Basic EPS	386,000	583,915	\$0.66	805,000	571,689	\$1.41
Incremental shares under stock plans:						
Stock awards		5,560			4,660	
Stock options		29,623			17,880	
Diluted EPS	\$386,000	619,098	\$0.62	\$805,000	594,229	\$1.35

Note 4 – Comprehensive Income

The Company's only item of "other comprehensive income" is net unrealized gains or losses on investment securities available for sale. Comprehensive income is calculated in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2003	2002	2003	2002
Net income	\$195	\$346	\$386	\$805
Other comprehensive income	(60)	72	(197)	222
Comprehensive income	\$135	\$418	\$189	\$1,027

Note 5 – Impaired Loans

Impaired loans were \$313,000 and \$766,000 at September 30, 2003 and December 31, 2002, respectively. Impairments of \$124,000 and \$329,000, respectively, were recognized on these loans in assessing the adequacy of the allowance for loan losses.

Note 6 – Stock-Based Compensation

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*. This statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We have elected to continue to apply the provisions of Accounting Principles Board ("APB") Opinion No. 25 and provide the pro forma disclosure as required by SFAS 148.

For purposes of pro forma disclosures, the estimated fair value of options at the time they are granted is amortized to expense over the options' vesting period of five years. The fair value of options granted, primarily in 2000, has been estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 6.17%, a dividend yield of 2%, a stock price volatility factor of 0.19, and a weighted-average expected life of seven years. The following table illustrates the effect on compensation expense, net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 148 to its stock option plan.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Three months ended March 31	2003	2002	2003	2002
Net income, as reported	\$195,000	\$346,000	\$386,000	\$805,000
Total stock option employee compensation expense determined under fair value based method	(10,000)	(9,000)	(29,000)	(27,000)
Pro forma net income	\$185,000	\$337,000	\$357,000	\$778,000
Earnings per share:				
Basic – as reported	\$.33	\$.60	\$.66	\$1.41
Basic – pro forma	.32	.59	.61	1.36
Diluted – as reported	.31	.58	.62	1.35
Diluted – pro forma	.30	.56	.58	1.31

Note 7 – Sale of Building

In February 2003, the Bank sold its office building in Ketchikan, Alaska for \$1,400,000 in cash. A loss, including transaction and related costs, of \$85,000 was recorded in the first quarter of 2003. The Bank has leased back a portion of the premises for continued use as a banking office. Future minimum lease payments amount to approximately \$56,000 per year for five years.

Note 8 – Commitments

Commitments to extend credit, including lines of credit, total \$8,519,000 and \$4,101,000 at September 30, 2003 and December 31, 2002, respectively. Commitments to extend credit are arrangements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates creditworthiness for commitments on an individual customer basis.

Undisbursed loan proceeds, primarily for real estate construction loans, total \$2,583,000 and \$2,114,000 at September 30, 2003 and December 31, 2002, respectively. These amounts are excluded from loan balances.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This discussion contains forward-looking statements which are based on assumptions and describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the word “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” or similar words. The Company’s ability to predict results or the actual effect of future plans or strategies is uncertain. Factors which could have a material adverse effect on operations include, but are not limited to, changes in interest rates, general economic conditions, legislative/regulatory changes (including the initiative to move the state legislature from Juneau discussed below), monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in our market areas and accounting principles and guidelines. You should consider these risks and uncertainties in evaluating forward-looking statements and you should not rely too much on these statements.

Financial Condition

Total assets of the Company were \$164.5 million at September 30, 2003 compared to \$154.3 million at December 31, 2002. The \$10.2 million (6.6%) increase resulted primarily from an increase in investment securities available for sale and an increase in loans.

Investment securities available for sale increased \$4.8 million (59.3%) to \$12.9 million at September 30, 2003, compared to \$8.1 million at December 31, 2002, reflecting the purchase of \$10.3 million of mortgage-backed securities, offset by principal reductions in all securities. Approximately \$5.1 million of the purchases were in 20-year fixed-rate mortgage-backed securities, funded by five- and seven-year fixed-rate amortizing advances from the FHLB. The remainder was in “hybrid” mortgage-backed securities which become floating-rate instruments in January 2006. There have been no sales of investment securities during 2003.

Loans (excluding loans held for sale) were \$114.5 million at September 30, 2003, compared to \$107.3 million at December 31, 2002, a \$7.2 million (6.7%) increase. This net increase resulted from loan production, partially offset by continuing loan prepayments, primarily in mortgage loans, in the low interest-rate environment. A significant portion of new mortgages originated during the first half of 2003 were sold in the secondary market, particularly in the first quarter; during the second quarter the Bank began to retain new production in the portfolio. As a result, one- to four-family mortgages decreased by \$4.6 million during the first quarter (to \$36.8 million at March 31, 2003), and then increased by \$7.7 million during the second and third quarters (to \$44.5 million at September 30, 2003). Management anticipates continuing to retain a large portion of new mortgages originated during the remainder of 2003.

Loans to commercial enterprises, including nonresidential and multifamily real estate, increased 22.5% to \$50.6 million at September 30, 2003, compared with \$41.3 million at December 31, 2002. The increase is primarily the result of continuing marketing efforts to small businesses as well as selected opportunities to purchase loan participations from other banks.

Loans are summarized by category as follows:

<i>(in thousands)</i>	September 30, 2003	December 31, 2002
Real estate:		
Permanent:		
One- to four-family	\$44,526	\$41,419
Multifamily	1,642	2,209
Commercial nonresidential	30,444	26,075
Land	3,468	5,120
Construction:		
One- to four-family	1,839	3,643
Commercial nonresidential	-	52
Commercial business	18,488	12,975
Consumer:		
Home equity	8,523	8,912
Boat	4,480	5,249
Automobile	570	831
Other	541	789
Loans	\$114,521	\$107,274
Loans held for sale	\$1,155	\$4,590

Deposits increased \$5.8 million (4.4%) to \$138.5 million at September 30, 2003, compared with \$132.7 million at December 31, 2002. While there are often seasonal variations, an analysis of the year-to-year (*i.e.*, September-to-September) trend indicates growth in all categories of deposits except certificates of deposit, as illustrated in the following table:

<i>(in thousands)</i>	September 30, 2003	Percent Change	2002	Percent Change	2001
Non-interest bearing demand	\$ 23,844	39.3%	\$ 17,120	5.5%	\$ 16,231
Interest-bearing demand	30,846	2.9	29,981	2.6	29,218
Total demand	54,690	16.1	47,101	3.6	45,449
Money market	23,205	4.4	22,237	21.2	18,345
Savings	23,133	9.9	21,057	11.0	18,969
Subtotal	101,028	11.8	90,395	9.2	82,763
Certificates of deposit	37,470	(4.9)	39,415	(6.9)	42,315
Total	\$138,498	6.7%	\$129,810	3.8%	\$125,078

The decrease in certificates of deposit reflects less aggressive pricing for shorter-term deposits as the need for funds has been low.

Advances from the Federal Home Loan Bank of Seattle increased \$4.4 million to \$9.4 million at September 30, 2003 from \$5.0 million at December 31, 2002, reflecting \$5.0 million of new five- and seven-year fixed-rate amortizing advances used to fund the purchase of mortgage-backed securities.

Results of Operations

Net Income. Net income for the third quarter of 2003 was \$195,000 (\$.31 per diluted share) compared to \$346,000 (\$.58 per diluted share) for the third quarter of 2002, a decrease of \$151,000. For the first three quarters of 2003, net income was \$386,000 (\$.62 per diluted share) compared to \$805,000 (\$1.35 per diluted share) for the first three quarters of 2002. However, two items affected the comparability of net income for these periods. The first quarter of 2003 included a nonrecurring loss of \$85,000 (\$51,000 net of tax effect) on the sale of the Bank's office building in Ketchikan. In addition, the Company recognized tax expense beginning in the first quarter of 2003, following full recognition at the end of 2002 of the future tax benefit of a net operating loss carryforward. See "Income Tax" elsewhere in this discussion.

For purposes of comparison, income might be separated into major components as follows:

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2003	2002	Income Incr. (Decr.)	2003	2002	Income Incr. (Decr.)
Net interest income	\$1,769	\$1,746	\$ 23	\$4,955	\$5,148	\$(193)
Noninterest income, excluding mortgage gains	284	260	24	806	693	113
Gain on sale of mortgage loans	26	81	(55)	321	132	189
Provision for loan losses	(30)	(75)	45	(135)	(295)	160
Noninterest expense, excluding loss on sale of building	(1,724)	(1,666)	(58)	(5,219)	(4,873)	(346)
Pre-tax income before loss on sale of building	325	346	(21)	728	805	(77)
Income tax	(130)	-	(130)	(291)	-	(291)
Income before loss on sale of building	195	346	(151)	437	805	(368)
Loss on sale of building, net of tax	-	-	-	(51)	-	(51)
Net income	\$ 195	\$ 346	\$ (151)	\$ 386	\$ 805	\$(419)

Net Interest Income. Net interest income for the third quarter of 2003 increased \$23,000 (1.3%) and for the first three quarters of 2003 decreased \$193,000 (3.7%) compared with the same periods in 2002. The year-to-date decrease is primarily attributable to lower loan balances. Daily average loans decreased \$6.5 million (5.6%) and \$10.0 million (8.7%) for the third quarter and first three quarters of 2003, respectively, compared with the same periods in 2002. Declining loan balances, together with increasing deposits, contributed to significant increases in low-yielding cash equivalents. As a result, the net interest margin on average earning assets decreased to 4.67% for the third quarter and 4.73% for the first three quarters of 2003, from 4.98% and 5.02%, respectively, for the same periods in 2002.

This decline in loans is the result of rapid prepayments, particularly in the mortgage loan portfolio, coupled with management's decision to sell newly originated mortgages in the secondary market, rather than keep the low-yielding fixed-rate loans in the portfolio. Beginning mid-second quarter, the Bank is now retaining a large portion of new loan production in its loan portfolio. It is management's intention, subject to market conditions, to continue retaining mortgage loans for the remainder of 2003.

Provision for Loan Losses. The provisions for loan losses for the third quarter and first three quarters of 2003 decreased to \$30,000 and \$135,000, respectively, compared to \$75,000

and \$295,000, respectively, for the same periods in 2002. The lower provisions in 2003 reflect management's assessment of asset quality and estimated loan impairments and were considered appropriate in order to maintain the allowance for loan losses at a level adequate to absorb losses inherent in the loan portfolio.

Net loan chargeoffs for the third quarter and first three quarters of 2003 were \$86,000 and \$186,000, respectively, compared to net recovery of \$2,000 for the third quarter of 2002 and net chargeoffs of \$133,000 for the first three quarters of 2002.

Noninterest Income. Excluding gains on sale of mortgages, noninterest income increased \$24,000 (9.2%) and \$113,000 (16.3%), respectively, for the third quarter and first three quarters of 2003 compared with the same periods in 2002. This increase was attributable in large part to increased checking accounts and other services to small-business customers.

Gains on sale of mortgage loans decreased \$55,000 to \$26,000 for the third quarter of 2003 and increased \$189,000 to \$321,000 for the first three quarters of 2003, each in comparison with the corresponding period in 2002. Mortgage gains are an integral part of the Bank's operations, but tend to be much more variable than other types of revenue because of changes in interest rates and other market conditions and because of management's decision to retain a greater or lesser portion of the Bank's mortgage production in the portfolio, versus selling such production in the secondary market. Gains in the first three quarters of 2003 compared to 2002 were positively affected by both factors. However, gains in the third quarter of 2003 compared to 2002 declined because more new mortgages were retained in the portfolio. Mortgage originations, particularly refinances, were generally higher in 2003 than in 2002 as a result of market conditions and other factors. As the Bank retains a higher portion of new mortgages during the remainder of 2003, it is anticipated that mortgage gains will continue to decrease in the fourth quarter.

Noninterest Expense. Noninterest expense increased \$58,000 (3.5%) to \$1.72 million for the third quarter of 2003 compared with the third quarter of 2002. For the first three quarters, noninterest expense, excluding the first-quarter loss on sale of the Ketchikan building, increased \$346,000 (7.1%) to \$5.22 million in 2003 compared with 2002.

The most significant increases were in compensation and benefits, which increased \$87,000 (10.4%) in the third quarter and \$276,000 (10.9%) in the first three quarters, each in comparison with the corresponding period in 2002. The increases in the first three quarters of 2003 follow several quarters during which expense increases were held to a minimum as a result of the closure of unprofitable offices and other efficiencies. Noninterest expense (excluding nonrecurring items) for all of 2002, for example, increased less than 0.5% compared with 2001. An increased level of expense for the first three quarters of 2003 (compared with 2002) was anticipated by management, and is anticipated to continue to some extent for the remainder of 2003, as part of its strategy of enhancing staff, systems, and facilities to enable growth over the next few years.

Income Tax. Prior to the fourth quarter of 2002 and for several previous years, the Company did not recognize any tax on current income because of the existence of tax net operating loss carryforwards (“NOLs”). During this period, net deferred tax assets in the balance sheet (resulting from the NOLs and other temporary differences between accounting income and taxable income) were substantially decreased through a valuation allowance because full realization was dependent upon earning sufficient taxable income prior to the expiration of the NOLs, and the Company’s income levels did not support a conclusion that their realization was more likely than not. Thus, the tax benefit was recognized only to the extent of each period’s taxable income, resulting in a net provision for income tax of zero for each of those periods.

At the end of 2002, however, the Company recognized the deferred tax benefits not only to the extent of current-year income but also recognized the benefit of the remaining deferred tax assets at December 31, 2002. Management believes that it is more likely than not that future earnings will result in full realization of these tax benefits. Beginning in 2003, the income statement now reflects a “normal” provision for federal and state income taxes.

At September 30, 2003, the Company had NOLs of approximately \$800,000 that will expire in various years beginning in 2007 and through 2022.

Asset Quality

Nonaccrual loans were approximately \$313,000 at September 30, 2003, compared with \$1.78 million at December 31, 2002. The largest loan at September 30, 2003 had a remaining balance of \$299,000 secured by fishing permits, fishing vessels and other equipment and receivables. Management has recognized an estimated impairment of \$110,000.

Loans with balances totaling \$313,000 and \$766,000 at September 30, 2003 and December 31, 2002, respectively, were considered to be impaired. Total estimated impairments of \$124,000 and \$329,000, respectively, were recognized on these loans in evaluating the adequacy of the allowance for loan losses.

Reposessed assets were \$829,000 at September 30, 2003, compared with \$189,000 at December 31, 2002. The balance at September 30, 2003 consisted of two commercial properties with a combined carrying value of \$815,000 and a consumer boat valued at \$14,000. All reposessed assets held at December 31, 2002 were sold during the first quarter of 2003.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits and principal and interest payments on loans. While maturities and scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions, and competition. The Company's primary investing activity is loan originations. The Company maintains liquidity levels believed to be adequate to fund loan commitments, investment opportunities, deposit withdrawals and other financial commitments. In addition, the Bank has available a line of credit generally equal to 25% of the Bank’s total

assets, or approximately \$41.1 million at September 30, 2003, of which \$31.7 million was unused.

At September 30, 2003, management had no knowledge of any trends, events or uncertainties that may have material effects on the liquidity, capital resources, or operations of the Company.

The Company is not subject to any regulatory capital requirements separate from its banking subsidiary. The Bank exceeded all of its regulatory capital requirements at September 30, 2003. See Note 2 of the Notes to Consolidated Interim Financial Statements contained herein for information regarding the Bank's regulatory capital position at September 30, 2003.

Recent Accounting Pronouncements

Significant recent Statements of Financial Accounting Standards ("SFAS") and Financial Accounting Standards Board Interpretations ("FIN"), and the impact of their adoption are described below.

FIN 46, *Consolidation of Variable Interest Entities*, issued in January 2003, provides guidance on the decision to consolidate certain "variable interest entities" in consolidated financial statements.

SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, issued in April 2003, clarifies when a contract meets the characteristic of a derivative, clarifies when a derivative contains a financing component and amends certain other existing pronouncements. The amendment is effective for contracts entered into or modified after September 30, 2003.

SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, issued in May 2003, requires the classification as a liability of any financial instrument with a mandatory redemption feature, an obligation to repurchase equity shares, or a conditional obligation based on the issuance of a variable number of its equity shares. The Company does not have any preferred shares or other financial instruments with a mandatory redemption feature. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective in the third quarter of 2003.

Management believes that these new accounting pronouncements will not have a significant impact on the Company's financial position, results of operations, or liquidity.

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: An evaluation of the registrant's disclosure controls and procedures (as defined in Section 13(a)-14(c) of the Securities Exchange Act of 1934 (the "Act")) was carried out under the supervision and with the participation of the registrant's Chief Executive Officer, Chief Financial Officer and other members of the registrant's senior management. The registrant's Chief Executive Officer and Chief Financial Officer concluded that the registrant's disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed by the registrant in the reports it files or submits under the Act is (i) accumulated and communicated to the registrant's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Controls: In the quarter ended September 30, 2003, the registrant did not make any significant changes in, nor take any corrective actions regarding, its internal controls or other factors that could significantly affect these controls.

PART II.

OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company and its subsidiary may be a party to various legal proceedings incident to its or their business. At September 30, 2003, there were no legal proceedings to which the Company or any subsidiary was a party, or to which any of their property was subject, which were expected by management to result in a material loss.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 3.1 Articles of Incorporation of Alaska Pacific Bancshares, Inc. (1)
- 3.2 Bylaws of Alaska Pacific Bancshares, Inc. (2)
- 10.1 Employment Agreement with Craig E. Dahl (3)
- 10.2 Severance Agreement with Roger K. White (3)
- 10.3 Severance Agreement with Lisa Corrigan Bell (3)
- 10.4 Severance Agreement with Thomas Sullivan (3)
- 10.5 Severance Agreement with Cheryl Crawford (3)
- 10.6 Severance Agreement with Tammi L. Knight (3)
- 10.7 Severance Agreement with John E. Robertson (5)
- 10.8 Severance Agreement with Leslie D. Dahl (5)
- 10.9 Alaska Federal Savings Bank 401(k) Plan (1)
- 10.10 Alaska Pacific Bancshares, Inc. Employee Stock Ownership Plan (3)
- 10.11 Alaska Pacific Bancshares, Inc. Employee Severance Compensation Plan (3)
- 10.12 Alaska Pacific Bancshares, Inc. 2000 Stock Option Plan (4)
- 10.13 Alaska Pacific Bancshares, Inc. 2000 Management Recognition Plan (4)
- 10.14 Alaska Pacific Bancshares, Inc. 2003 Stock Option Plan (6)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

-
- (1) Incorporated by reference to the registrant's Registration Statement on Form SB-2 (333-74827).
 - (2) Incorporated by reference to the registrant's Registration Statement on Form SB-2 (333-74827), except for amended Article III, Section 2, which was incorporated by reference to the registrant's quarterly report on Form 10-QSB for the quarterly period ended March 31, 2003.
 - (3) Incorporated by reference to the registrant's Annual Report on Form 10-KSB for the year ended December 31, 1999.
 - (4) Incorporated by reference to the registrant's annual meeting proxy statement dated May 5, 2000.
 - (5) Incorporated by reference to the registrant's quarterly report on Form 10-QSB for the quarterly period ended March 31, 2003.
 - (6) Incorporated by reference to the registrant's annual meeting proxy statement dated April 10, 2003.

- (b) The Company filed a Current Report on Form 8-K, dated July 24, 2003, to furnish a press release announcing its second quarter 2003 financial results.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Alaska Pacific Bancshares, Inc.

November 13, 2003

Date

/s/Craig E. Dahl

Craig E. Dahl
President and
Chief Executive Officer

November 13, 2003

Date

/s/Roger K. White

Roger K. White
Senior Vice President and
Chief Financial Officer

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Craig E. Dahl, President and Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Alaska Pacific Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2003

/s/Craig E. Dahl
Craig E. Dahl
President and
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Roger K. White, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Alaska Pacific Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (c) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2003

/s/Roger K. White
Roger K. White
Senior Vice President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
OF ALASKA PACIFIC BANCSHARES, INC.
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and in connection with the accompanying Quarterly Report on Form 10-QSB, I hereby certify that:

- The report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and
- The information contained in the report fairly presents, in all material respects, the company's financial condition and results of operations.

November 13, 2003

Date

/s/Craig E. Dahl

Craig E. Dahl

President and

Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
OF ALASKA PACIFIC BANCSHARES, INC.
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and in connection with the accompanying Quarterly Report on Form 10-QSB, I hereby certify that:

- The report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and
- The information contained in the report fairly presents, in all material respects, the company's financial condition and results of operations.

November 13, 2003

Date

/s/Roger K. White

Roger K. White
Senior Vice President and
Chief Financial Officer